BUSINESSEUROPE NIPPON KEIDANREN fei financial executives international

April 20, 2009

Sir David Tweedie
Chairman, International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re—Current deliberations on the Discussion Paper: Preliminary Views on Amendments to IAS 19 *Employee Benefits*

Dear Sir David:

BUSINESSEUROPE, Nippon Keidanren and the Committees on Corporate Reporting and Benefits Finance of Financial Executives International each submitted a comment letter on the Discussion Paper: Preliminary Views on Amendments to IAS 19 *Employee Benefits* (the "Discussion Paper") in September 2008. Together, our organizations represent businesses in Europe, Japan and the United States—geographies comprising more than 80 percent of the world's capital markets. Given our members' shared concerns with the tentative decisions reached by the IASB through March 2009, we felt those concerns should be brought to your attention as early in the process as possible and in a manner that communicates to the Board that our views are not limited to geographic or national interests.

Our individual comment letters stated support for the objective of the Discussion Paper to encourage a fair reflection of the impact post-employment benefit plans have on a company's financial position and operations. We strongly believe an approach that includes short-term capital market volatility for plan assets and pension liabilities in net income, rather than in other comprehensive income undermines the usefulness of that statement as a means to communicate the operating performance of a company. Investors and other users seeking to maintain transparency and clarity on the operations of companies will likely require "non-GAAP" disclosures, contributing to further divergence between IFRS amounts and the amounts used to measure performance both internally and externally. If the IASB believes that intermediate changes in presentation are necessary, we strongly recommend that net income should not be affected by these short-term capital market volatilities.

We disagree with the Board's January 2009 tentative decision to include all changes in the value of plan assets and liabilities in net income. Furthermore, we have concerns with a presentation approach that includes the "debits" (service and finance costs) in operating income and the "credits" (returns on assets) outside of operating income. This approach improperly burdens operational performance of companies with finance costs without the related offset for returns on assets committed to fund the plan obligations being accreted. In addition, this approach would not distinguish the operational performance of a company that is fully funded from a company that is

not fully funded. This information enables an investor to understand the portion of operating cash flow that will be available for investment or return to shareholders. Today, this issue is effectively addressed by use of an expected return.

Our members believe that financial information must be presented in a manner that represents the economic substance of the underlying rights and obligations of the company. There are certain characteristics of post-employment obligations and plan assets that establish their clear economic and legal linkage and distinguish their economic substance from other assets and obligations of the company, such as:

- Plan assets are subject to significant restrictions on their use and are not assets available to the company to meet general liquidity or other cash flow needs. While negative returns over several years may trigger funding obligations, that funding is spread over several future years and can be offset by favorable asset returns in future years.
- In most cases, plan assets are held in a trust managed by individuals that have a primary fiduciary duty to the plan participants independent from any management responsibilities for the company. Therefore, pension investment strategy typically focuses on investing in a manner that targets a long term asset return that will grow the assets consistently with the growth in the liability (e.g. finance costs). Such strategies aim to maintain and improve the funded position of the pension plan such that sufficient assets are available to pay future benefits from the plan as they come due.
- Post-employment obligations represent a long term commitment to provide benefits to plan participants. An integral part of valuing these obligations is the long term demographic and economic assumptions which impact the magnitude and timing of the plan obligation.

Our members do not believe making this change in presentation—in a fast-track approach outside of a comprehensive review of post-employment benefit accounting is appropriate. The question of immediate recognition / deferral is inextricably linked with the measurement model adopted. A model which results in plan asset and pension liability values which properly reflect their long-term nature could well obviate the need for any deferral mechanism or other procedure for ensuring that information on income trends and flows is not rendered meaningless by short-term capital market volatility. The proposed presentation approach suggests there is a level of accuracy in the measurement of the liability that cannot exist for an obligation that is dependent upon so many future variables. Furthermore, we note significant concern with the discount rate used to measure defined benefit obligations—specifically in markets where there is not a deep bond market—and with potentially reporting this information on a quarterly basis.

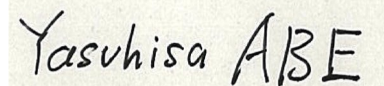
The accounting for post-employment benefits is included in the Board's Memorandums of Understanding with the Financial Accounting Standards Board and with the Accounting Standards Board of Japan. We do not believe the Board should proceed with an approach that creates more divergence from existing Generally Accepted Accounting Principles in the United States and Japan—especially at a time

when such an approach could create significant national concern over whether the adoption of IFRS would be in the best interest of investors. Furthermore, concern over whether the new standard would be endorsed in Europe could further hinder a move to IFRS in the United States and Japan if they are no longer considered global standards.

We strongly encourage the Board to reconsider the tentative decisions taken on this project in light of these and similar comments the Board received from a large portion of your constituency. Should you have questions or require further information, please do not hesitate to contact us.

Sincerely,

Philippe de Buck
Director General
BUSINESSEUROPE



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